

# Latest global audit norm adoption on regulators' table

NFRA, other financial watchdogs, MCA to meet next week

RUCHIKA CHITRAVANSHI

New Delhi, 20 August

**T**he National Financial Reporting Authority (NFRA) is set to hold a meeting next week with key financial regulators, including the Reserve Bank of India, the Securities and Exchange Board of India (Sebi), and the Institute of Chartered Accountants of India (ICAI), and the Ministry of Corporate Affairs to adopt the revised International Standard of Audit 600 (ISA 600), in a bid to address gaps that have contributed to major audit lapses, according to people familiar with the matter.

The move to adopt ISA 600 (Revised) is intended to tighten oversight on auditors who are often found shielding behind audit reports approved by subsidiary companies, the sources said.

"It is through such mechanisms that monies from listed companies are siphoned off," one source said. "Audit reports from subsidiary companies are relied upon by the principal auditor," allowing malfeasance to go unchecked.

This issue has surfaced in several of NFRA's orders, most recently in the connection with the Coffee Day Enterprises Limited matter. In that case, the regulator found that auditors failed to report the fraudulent diversion of funds, despite evidence that public money had been channelled to an entity controlled by the promoter, which had no legitimate business ties to the listed company.

"The auditor's reliance on management explanation and using the ruse of good faith understanding of management explanation resulted in their having totally flayed the professional scepticism required of a prudent auditor," NFRA had said.



## ISA 600 (REVISED): WHAT IT SAYS

▶ Group auditors must supervise and review the work of engagement team members, including component auditors

▶ They should evaluate whether adequate audit evidence, including from component auditors, has been obtained to help form an opinion on group financial statements

▶ The standard emphasises the importance of strong communication and interactions during the group audit process

# NFRA, other regulators to meet for auditing standards upgrade

The revised ISA 600 focuses on enhancing the group auditor's oversight of component auditor documentation. According to the revised standards: "The review of component auditor audit documentation is directly related to, and influenced by, the group auditor's direction and supervision of the component auditors and the review of their work throughout the group audit."

ISA 600 (Revised) aims to strengthen and clarify various aspects of the group auditor's interaction with component auditors, including communicating relevant ethical requirements, determining compe-

tence and capabilities of the component auditor, and determining the appropriate nature, timing, and the extent of involvement by the group auditor in the work of the component auditor.

These standards, however, have not yet been adopted in India. Before the new standards can be notified, they require a recommendation from financial regulators like ICAI, NFRA, and Sebi, the source said.

"This issue has been a common thread in lapses in the audited books of Reliance Capital, IL&FS, and CG Power," the source added. "The clean

chit provided by a subsidiary's auditor is then used by the principal auditor to mask deficiencies... The auditor may be using this to hide his/her own inefficiency, or collusion."

The Chartered Accountants Act of 1949 stipulates that chartered accountant in practice shall be deemed to be guilty of professional misconduct if he discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force.

